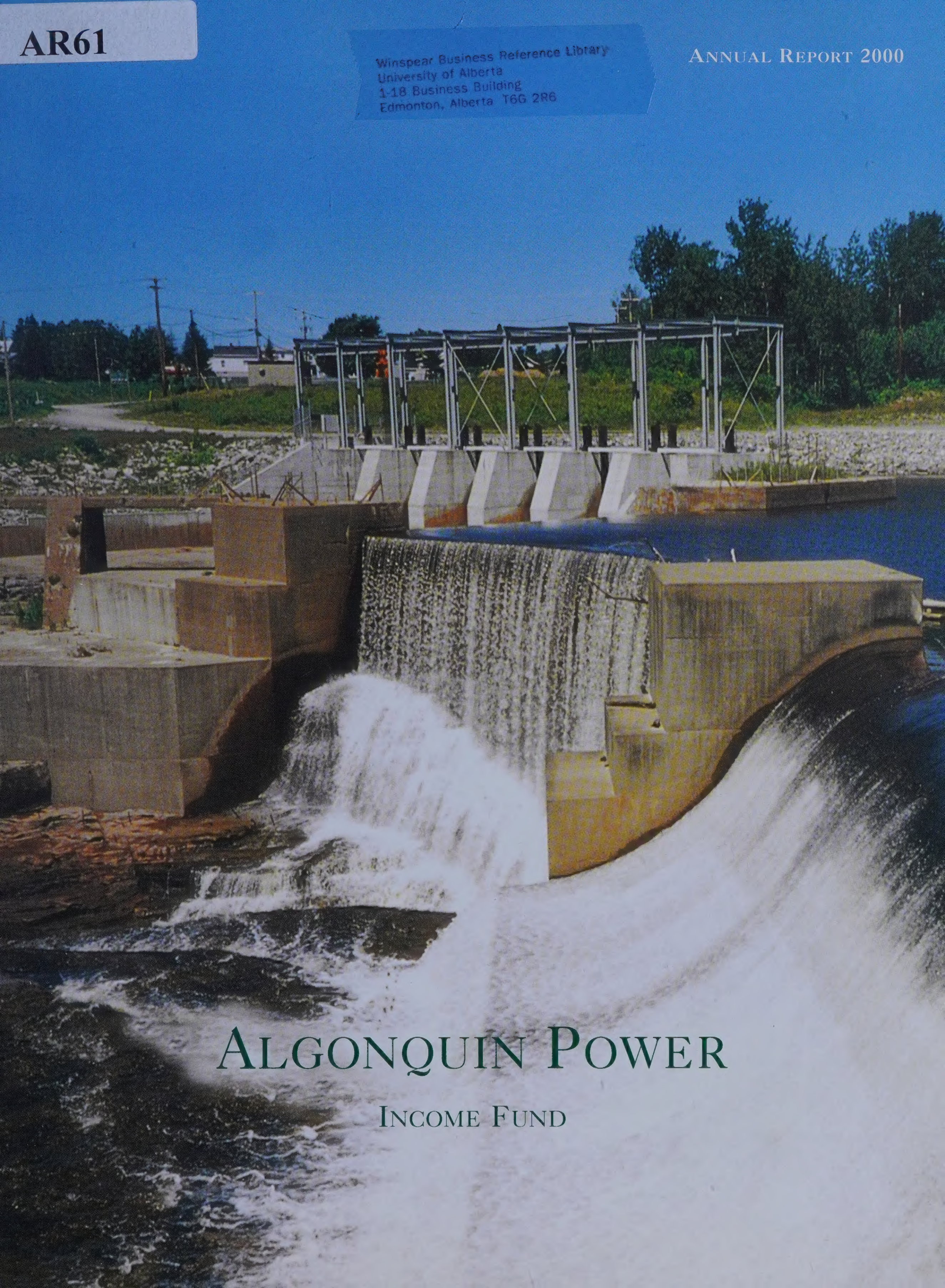
Annual Report 2000



Algonquin Power

Income Fund

Contents

ALGONQUIN POWER INCOME FUND

Stability, Moving forward

Algonquin Power Income Fund (the "Fund") is an unincorporated open-ended trust that was established under the laws of Ontario. The Fund acquires direct and indirect interests in facilities which provide stable cash flow from renewable resource facilities. At the end of 2000, the Fund was one of the largest independent producers of hydroelectricity in Canada with 41 facilities strategically spread across Ontario (5), Quebec (11), Newfoundland (1), New York State (9), New Hampshire (13), Vermont (1) and New Jersey (1). It is regarded as a leading consolidator in what is considered a highly fragmented industry that continues to evolve under emerging deregulation legislation in Canada and the United States.

The Fund makes quarterly cash distributions derived from net cash flows generated from the facilities it owns directly or in which it has an investment interest. Electricity produced by its facilities is sold under contract to major utility companies including Ontario Electricity Financial Corporation, Hydro Quebec, Public Service of New Hampshire, Niagara Mohawk and others.

Cash distributions include all cash flow generated from operations plus interest, lease payments and dividends as well as other income and repayment of notes receivable less repayments of notes payable. The Fund had 27,020,472 Trust Units outstanding at December 31, 2000. The Trust Units trade on The Toronto Stock Exchange under the symbol APF.UN.

The Fund is governed by three independent trustees elected annually by the unitholders and is managed by Algonquin Management Inc. The Fund's hydroelectric generating facilities are operated by Algonquin Power Systems Inc., a group of more than 100 engineering, science and technical professionals led by an executive team with more than a half century of combined experience in the hydroelectric industry.

Subject to certain assumptions, limitations and conditions set out in the Fund's latest prospectus, the Trust Units are qualified investments under the Income Tax Act (Canada) for trusts governed by RRSPs, RRIFs, DPSPs ("Registered Plans") and under proposed amendments to the regulations under that Act, RESPs and are not considered foreign property for Registered Plans.

FINANCIAL HIGHLIGHTS

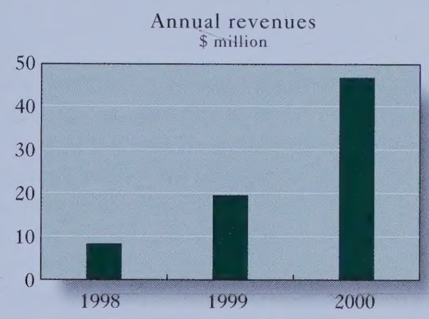
(thousands of Canadian dollars except as noted)

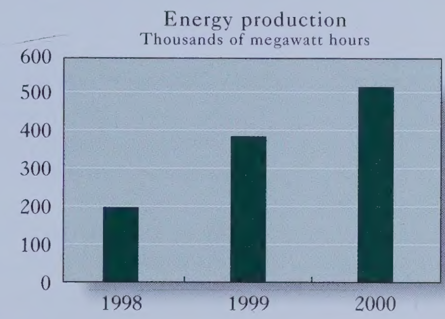
Years ended December 31*	2000	1999	1998
STATEMENT OF KEY OPERATING DATA			
Energy production megawatt hours**	512,767	382,530	195,490
Energy sales**			
United States sites	$ 22,998	$ 12,943	$ 8,657
Canadian sites	23,131	18,369	8,402
Total energy sales attributed to the Fund**	46,129	31,312	17,059
Net earnings	13,364	7,209	3,195
Net earnings per unit	0.54	0.37	0.29
Operating cash flow	22,537	13,329	7,031
Distributed cash flow	24,755	18,467	9,281
Distributions per unit	0.970	0.900	0.835
BALANCE SHEET DATA			
Cash and cash equivalents	$ 9,580	$ 9,602	$ 2,124
Working capital	2,024	(235)	(2,044)
Capital assets, notes from hydroelectric facilities and participation interests	303,654	298,682	122,422
Unitholders' equity	219,559	205,221	123,944
Number of units outstanding as at December 31	27,020,472	24,020,472	14,090,472

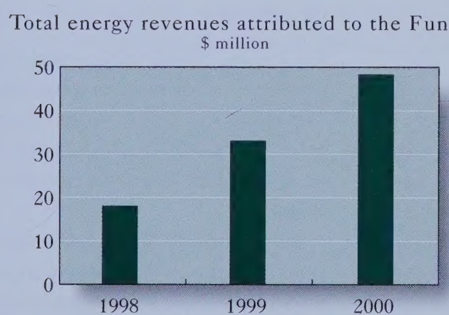
* The Fund first acquired an interest in certain hydroelectric generating facilities on December 23, 1997. Accordingly, the operating results for 1997 are insignificant.

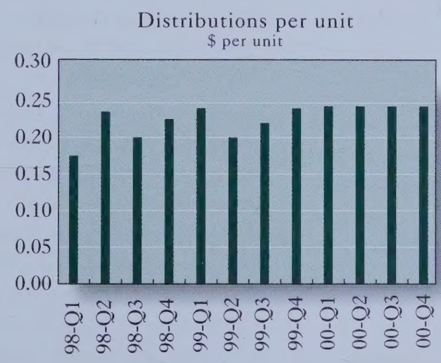
** The Fund derives its income from direct or indirect investment in renewable resource facilities, through the direct receipt of energy revenues or through the receipt of interest, participation income and repayment of notes receivable. Accordingly, the performance of the Fund is more appropriately judged on a total consolidated basis.

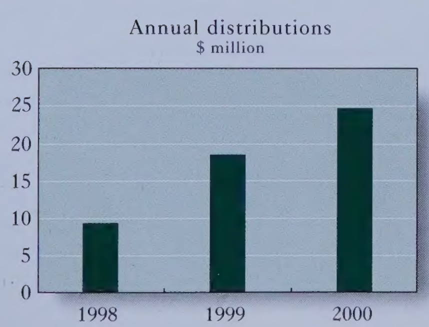
PERFORMANCE COMPARATIVES

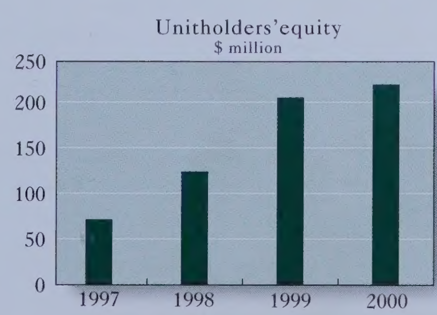












REPORT TO UNITHOLDERS

The Algonquin Power Income Fund (the "Fund") continued to improve performance in revenue, net earnings per unit and cash distributions during 2000.

STABLE DISTRIBUTIONS COMPARE FAVOURABLY

Your Fund was successful in distributing $0.97 per unit during 2000. The stable distributions for the year combined with the capital appreciation throughout the year produced total returns that outperformed The TSE 300 composite index and the 10 year Government of Canada bonds during 2000.

The Fund successfully completed a public offering in the third quarter of 2000 which raised $27.5 million. Proceeds from this offering were used to repay the revolving credit facility which was utilized to acquire three additional hydroelectric generating facilities. These acquisitions were consistent with the Fund's criteria of acquiring assets which provide accretive returns to unitholders. These three facilities have an installed capacity of 15 megawatts which increased overall generating capacity by 15 per cent to a total of 116 megawatts.

Two of the facilities acquired are located in the State of New Hampshire and complement sister operations in that region. These acquisitions will help achieve improved operational efficiencies, take advantage of synergies and enhance our strategy of geographic and regulatory diversification.

The third facility acquired is located in the State of New Jersey, underscoring the Fund's stated goal of expanding geographic and regulatory diversification.

These three acquisitions together with nine other acquisitions made during 1999 and the anticipated acquisitions during the first half of 2001, combined with planned reserves, will help mitigate the impact caused by six facilities in New York State reverting to current market rates during 2001. The changes to current market rates from higher rates are a result of both contracts ending and changes to stipulated power purchase rates at certain facilities. In total, the six facilities in the State of New York represent seven per cent of total energy production.

OUTLOOK

We remain committed to maintaining the stability of distributions to unitholders by improving the performance of our existing asset base and by building our asset portfolio of facilities which provide stable cash flow.

In addition to further accretive acquisitions of hydroelectric generating facilities, we will also look to take advantage of those opportunities which provide an income flow to balance fluctuations resulting from natural hydrologic conditions. These opportunities may be found in other renewable resource facilities such as wind, biomass and wastewater utilities.

The net proceeds from a public offering completed during the first quarter of 2001, which raised $74.8 million, will be used to acquire facilities that meet the Fund's acquisition criteria.

On behalf of the Trustees, thank you for your continued support.

Ian Bradley
Chairman

QUESTIONS & ANSWERS

The Manager of the Fund responds to some key questions:

What is the impact of deregulation on the Fund?

Deregulation and the introduction of competition are the most significant changes occurring in the electrical generation industry. The Province of Ontario, for example, completed a restructuring of Ontario Hydro during 1999, although deregulation continues to move slowly forward. The Fund anticipates that it is well positioned to take advantage of new acquisition opportunities to build its core asset base as a result of deregulation. As the Fund has long-term contracts with major utilities, it does not anticipate participating to any significant degree in the deregulated market in the near term.

Please explain any contract changes with respect to power rates which may affect the Fund's revenues.

Six hydroelectric generating facilities in which the Fund has a direct or indirect interest in the State of New York reverted from higher contract rates to lower current market rates commencing in 2001. The six facilities represent seven per cent of our total energy production.

In anticipation of these changes at the six facilities, the Fund created reserves to supplement distributions until acquisitions of other facilities help mitigate these rate changes.

Will the Fund continue to seek acquisitions in the small hydro segment of the North American electrical generation industry?

Yes, the Fund will continue to seek acquisitions in its core business. We remain committed to maintaining the stability of distributions to unitholders by improving the performance of our existing asset base and building our hydroelectric power generation network through strategic geographic and regulatory diversification.

It should also be noted that competition for small hydro acquisitions is becoming

more intense as more companies enter the energy generation market. The Fund is undertaking to diversify its asset portfolio.

What other renewable resource opportunities could be considered?

Potential investment candidates could include wind and biomass-powered generating stations or wastewater facilities within a regulated utility. Opportunities which provide long term, statistically predictable future cash flows and whose risk profiles are generally consistent with the existing portfolio of hydroelectric generating assets, will be considered. All investment opportunities will be required to meet the Acquisition Guidelines established by the Trustees. These guidelines provide that all acquisitions must be expected to result in an increase in Distributable Cash per Trust Unit.

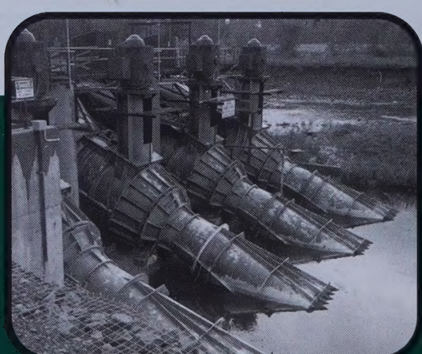
What would the benefits be from acquiring assets outside the small hydro sector?

Stability and sustainability of cash flows

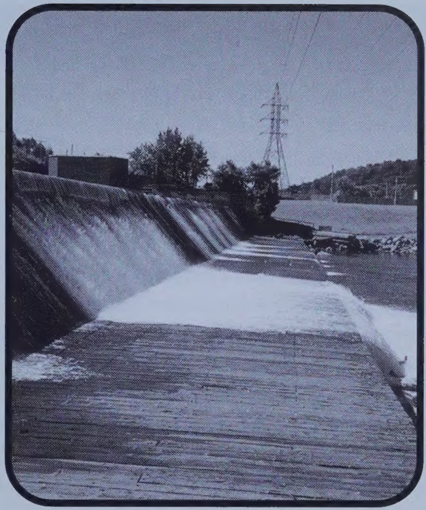
To date, the Fund has pursued an acquisition strategy which specifically targeted hydroelectric generating facilities or developments. The continued acquisition of hydroelectric generating facilities is anticipated to remain the primary avenue for growth, but the Trustees believe that the stability and sustainability of cash flows to unitholders could be enhanced through a diversification of the current asset portfolio.

Balance natural hydrologic conditions

A diversification of the asset portfolio that could include wind or biomass-powered generating stations or wastewater facilities within a regulated utility could provide stable cash flows to balance the natural hydrologic fluctuations inherent in hydroelectric generation.



Risk Profile

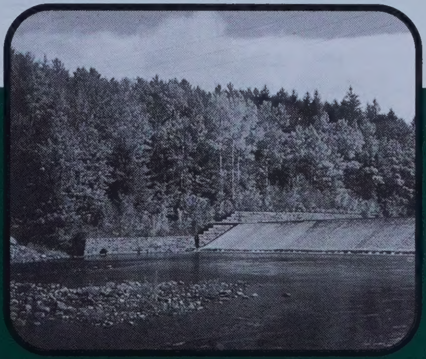


Potential investment opportunities such as biomass-powered generating stations are not affected by the ups and downs of water flow which impact the performance of the Fund's "run-of-the-river" hydroelectric generating facilities. As water flows naturally ebb during parts of the year, facilities not dependent on weather tend to maintain a constant revenue flow during the same timeframe, providing a strong balancing effect that would benefit unitholders.

Does the Fund Manager have the expertise to analyze, acquire and operate some of these new power-generating opportunities?

Yes. The management team of the Manager has extensive experience and contacts in the independent power industry across North America. The Manager would also consider capitalizing on this experience and these contacts to structure strategic alliances with companies that have recognized expertise in other renewable resources.

All acquisitions will be required to meet the Acquisition Guidelines established by the Trustees.



MANAGEMENT DISCUSSION AND ANALYSIS

Algonquin Power Income Fund (the "Fund"), a publicly-traded Canadian income fund, is a leading consolidator of small hydroelectric plants in Canada and the United States. This position has been achieved by the Fund through a successful acquisition strategy. At December 31, 2000, the Fund had 27,020,472 units issued and outstanding and owned directly or indirectly 41 hydroelectric generating facilities with an installed capacity of 116 megawatts.

SIGNIFICANT TRANSACTIONS

During the third quarter of 2000, the Fund completed a public offering which raised net proceeds of $25.7 million by issuing 3.0 million trust units. The proceeds from the public offering were used primarily to pay down the revolving line of credit and complete the acquisition of two hydroelectric power plants in New Hampshire and one in New Jersey. These additional power plants added 15 megawatts of capacity.

In 1997 and 1998, the Fund acquired notes receivable and participation and other interests in the Long Sault Rapids, Trafalgar, Chute Ford, Rawdon and St. Alban facilities, which entitled the Fund to 100% of the cash flow of these facilities. These notes were accounted for as notes receivable and participation and other interests, since management determined that all the benefits and risks of ownership had not passed fully to the Fund, primarily as a result of the uncertainty regarding the ultimate ownership of these facilities. During 1999, management concluded that effective ownership of these 11 facilities had passed to the Fund and, as such, has consolidated these facilities in the balance sheet of the Fund at December 31, 1999. Operating results for 2000 are presented on a consolidated basis in the Fund's accounts for these 11 facilities.

OPERATING RESULTS

On a year over year basis, the Fund posted improved revenues, net earnings, earnings per unit, cash flow generated and cash distributions. Energy sales reported were $44.0 million (*1999—$13.7 million*). Revenues from interest income and income from participation agreements totalled $2.5 million (*1999—$5.7 million*). Total revenue was $46.5 million(*1999—$19.4 million*). Energy sales during 2000 were higher than 1999 by $30.3 million due to the consolidation of the 11 hydroelectric generating plants which contributed $19.0 million of energy sales, a full year of production from the eight hydroelectric generating plants acquired during 1999 which added incremental energy sales of $9.8 million, and the addition of three hydroelectric generating plants during 2000 which added $736,000 in energy sales. The $3.2 million decrease in interest and participation income is due primarily to the fact that the 11 facilities consolidated previously had contributed $3.1 million in interest and participation income. This was partially offset by the addition of the Franklin Note acquired during 1999. During 2000, all but two facilities (*Franklin Industrial Complex and Rattlebrook*) were consolidated in the accounts of the Fund.

The chart (opposite) reports revenue on a total consolidated basis and reconciles the amount to that reported in the financial statements.

$C 000's	2000	1999
Revenues		
Consolidated Energy Revenue		
United States sites		
New York	11,325	8,211
New England	11,673	4,732
Subtotal	22,998	12,943
Canadian sites		
Quebec	15,100	10,360
Ontario	7,461	7,450
Newfoundland	570	559
Subtotal	23,131	18,369
Total	46,129	31,312
Interest Income (less withholding tax)	970	1,348
Total Consolidated Revenue	47,099	32,660
Total Revenue Reported	46,493	19,361
Add: Energy Sales for Non-Consolidated Hydroelectric Facilities	2,138	16,798
Less: Interest Income on Facilities Consolidated	(1,131)	(1,874)
Less: Participation Income on Facilities Consolidated	(401)	(1,625)
	47,099	32,660

During 2000, all regions posted improved revenues compared to the prior year due to the addition of three hydroelectric plants in New England, receiving a full year of production from plants acquired during 1999 (*three in New England and five in Quebec*) and improved hydrologic conditions in 2000 versus 1999. During both 2000 and 1999, revenues were below forecast due to rainfall levels below normal historic averages. Precipitation in 2000 started off strong, but worsened during the third and fourth quarters, resulting in dryer than normal conditions for the full year.

Interest income represents income from cash invested in short term deposits and interest received on the Algonquin Power Note.

2000 operating expenses increased from 1999 by $7.7 million to $12.3 million due to the consolidation of the 11 facilities, the costs of operating the eight facilities acquired during 1999 for a full year and the addition of three hydroelectric generating facilities during 2000. Operating expenses during 2000 were higher than forecast due to higher equipment repair costs. During 1999, operating costs were in line with forecast.

The Fund's management fees and operations supervisory fees remained constant at $408,000 and $308,000 respectively. There were no rate increases in management fees during 2000 despite further acquisitions during that period.

During 2000, the Fund recorded administrative expenses of $1.3 million (*1999—$1.3 million*). Higher legal and unitholder communications expenses resulting from the increased number of facilities and the larger Fund capitalization were offset by a reduction in consulting fees.

The increase in interest expense of $7.4 million to $8.9 million (*1999—$1.5 million*) primarily represents project debt at Côte Ste.-Catherine, Long Sault Rapids, Chute Ford and the interest and related amortization of financing fees associated with the revolving line of credit. The interest expense for Long Sault Rapids and Chute Ford was not consolidated in the accounts of the Fund during 1999 and Côte Ste.-Catherine was not acquired until the third quarter of 1999.

Cash flow was higher than the prior year due to the addition of three hydroelectric generating facilities during 2000, a full year production from facilities acquired during 1999 and improved hydrologic conditions during 2000 versus 1999. Cash flow was slightly below forecast during 2000 due to lower profits resulting from hydrologic conditions less than historic norms and higher operating costs as discussed above. During 2000, the Fund utilized hydrology reserves to supplement annual distributions.

FINANCIAL POSITION

As at December 31, 2000, the Fund had positive net working capital of $2.0 million (*1999—negative $235,000*) and had $9.6 million of cash and cash equivalents.

Long-term debt at December 31, 2000 was $73.2 million (*1999—$77.1 million*). This debt primarily represents the non-recourse project debt at Côte Ste.-Catherine, Long Sault Rapids and Chute Ford.

RISK MANAGEMENT

Due to the Fund's ownership of hydroelectric generating facilities in the United States, the Fund's results from operations are affected by the exchange rate between the Canadian and US dollars. The Fund has attempted to reduce the impact of exchange rate fluctuations by agreeing to pay certain of its obligations in US dollars. The management fees payable to the Manager of the Fund and the operations supervisory fees payable to Algonquin Power Systems Inc. are in US dollars. As well, the principal payments on certain promissory notes are payable in US dollars. Together, this has the effect of transferring much of the foreign exchange risk out of the Fund.

On an annual basis the Fund utilizes currency options to hedge quarterly distributions and protect a minimum downside position.

In 2001, six of the New York facilities representing seven per cent of the energy production reverted to current market rates either due to the expiring of the power purchase agreements or contract stipulations requiring this change. In anticipation of these changes, the Fund has established reserves to supplement distributions until the acquisition of other accretive assets help mitigate the impact of these rate changes.

OUTLOOK

To date, the Manager has pursued an acquisition strategy which specifically targeted hydroelectric generating facilities or developments. While the primary avenue for growth of the Fund is anticipated to remain the continued acquisition of hydroelectric generating facilities, the Trustees and the Manager have agreed to broaden the scope of potential investment opportunities which may be presented by the Manager to the Fund. The Trustees believe that the stability and sustainability of cash flows to unitholders may be enhanced through a diversification of the current asset portfolio.

The Fund will consider investment opportunities which provide stable cash flow from renewable resource facilities. Potential investment candidates could include wind and biomass-powered generating stations or wastewater facilities within a regulated utility. Opportunities which provide long term, statistically predictable future cash flows whose risk profile is generally consistent with the existing portfolio of hydroelectric generating assets will be considered. All investment opportunities will continue to be required to meet the Fund's Acquisition Guidelines established by the Trustees. These guidelines provide that all acquisitions must be expected to result in an increase in Distributable Cash per Trust Unit.

During the first quarter of 2001, the Fund completed a public offering of 7.6 million units and raised $74.8 million in gross proceeds. The proceeds are to be used to acquire facilities that meet the Fund's acquisition criteria.

AUDITOR'S REPORT TO THE UNITHOLDERS

We have audited the consolidated balance sheets of Algonquin Power Income Fund as at December 31, 2000 and 1999 and the consolidated statements of earnings and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Toronto, Canada
February 16, 2001

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2000 AND 1999
(THOUSANDS OF CANADIAN DOLLARS)

	2000	1999
ASSETS		
Current assets		
Cash and cash equivalents	$ 9,580	$ 9,602
Accounts receivable	5,828	6,859
Current portion of notes receivable (*note 5*)	1,840	–
Prepaid expenses	491	363
Future income tax asset (*note 11*)	217	546
	17,956	17,370
Notes receivable (*note 5*)	12,095	13,681
Equity investment (*note 6*)	4,100	4,162
Capital assets, net of amortization (*note 7*)	292,021	287,241
Funds held in reserve	1,696	1,914
Future non-current income tax asset (*note 11*)	–	719
Deferred financing fee	634	901
	$ **328,502**	$ 325,988
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 4,274	$ 5,833
Due to Algonquin Power Group	1,887	2,746
Cash distribution payable	6,552	5,765
Current portion of long-term liabilities (*note 9*)	994	3,194
Future income tax liability (*note 11*)	1,806	–
Current income tax liability	419	67
	15,932	17,605
OTHER LIABILITIES	871	533
Revolving credit facility (*note 8*)	–	6,911
Long-term liabilities (*note 9*)	72,250	73,880
Future non-current income tax liability (*note 11*)	19,890	21,838
Unitholders' Equity		
Trust units (*Note 2*)	250,521	224,792
Deficit	(30,962)	(19,571)
	219,559	205,221
Commitments and contingencies (*notes 12 and 16*)		
	$ **328,502**	$ 325,988

Approved by the Trustees:

George Steeves — Trustee

K. Moore — Trustee

CONSOLIDATED STATEMENTS OF EARNINGS AND DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999
(THOUSANDS OF CANADIAN DOLLARS)

	2000	1999
REVENUE		
Energy sales	$ 43,996	$ 13,709
Interest income and income from participation agreements	2,497	5,652
	46,493	19,361
EXPENSES		
Operating	12,279	4,574
Amortization	8,621	3,809
Management fees	408	408
Operations supervisory fees	308	308
Administrative expenses	1,299	1,266
(*Gain*) loss on foreign exchange	(359)	264
	22,556	10,629
EARNINGS BEFORE INTEREST EXPENSE	23,937	8,732
Interest expense	8,947	1,510
EARNINGS BEFORE INCOME TAXES	14,990	7,222
PROVISION FOR (RECOVERY OF) INCOME TAXES *(note 11)*		
Current income taxes	710	67
Future income taxes	916	(54)
	1,626	13
NET EARNINGS	13,364	7,209
Deficit, beginning of year	(19,571)	(8,313)
Cash distributions (*note 13*)	(24,755)	(18,467)
Deficit, end of year	$ (30,962)	$ (19,571)
Net earnings per trust unit (*note 14*)	$ 0.54	$ 0.37

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999
(THOUSANDS OF CANADIAN DOLLARS)

	2000	1999
OPERATING ACTIVITIES		
Net earnings	$ 13,364	$ 7,209
Items not affecting cash		
Amortization of capital assets	8,621	3,649
Other amortization	685	108
Distribution received in excess of equity income	62	23
Future income taxes	916	(54)
Unrealized foreign exchange loss (gain)	(428)	568
	23,220	11,503
Changes in non-cash operating working capital	(683)	1,826
	22,537	13,329
FINANCING ACTIVITIES		
Cash distributions	(24,755)	(18,467)
Revolving credit facility	(6,911)	6,911
Issue of trust units	27,450	99,848
Expenses of trust units offerings	(1,721)	(7,517)
Financing fee	(18)	(999)
Repayment of long-term liabilities	(3,753)	(1,585)
	(9,708)	78,191
INVESTING ACTIVITIES		
Decrease in funds held in reserve	218	–
Receipt of principal on notes receivable	229	3,861
Acquisition of notes receivable	–	(7,335)
Additions to capital assets	(569)	–
Acquisition of operating entities (*note 3*)	(12,814)	(83,013)
	(12,936)	(86,487)
Effect of exchange rate differences on cash and cash equivalents	85	(62)
Increase (decrease) in cash and cash equivalents	(22)	4,971
Cash and cash equivalents on consolidation of generating facilities (*note 4*)	–	2,507
Cash and cash equivalents, beginning of year	9,602	2,124
Cash and cash equivalents, end of year	$ 9,580	$ 9,602
Supplemental disclosure of cash flow information		
Cash paid during the year for interest expense	$ 8,225	$ 1,385
Cash paid during the year for income taxes	$ 288	$ –

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(IN THOUSANDS OF CANADIAN DOLLARS EXCEPT AS NOTED)

Algonquin Power Income Fund (the "Fund") is an open-ended, unincorporated Trust established pursuant to the Declaration of Trust dated September 8, 1997, as amended under the laws of the Province of Ontario. The Fund's principal business activity is the ownership, directly or indirectly, of hydroelectric generating facilities.

The Fund is managed by Algonquin Management Inc. (AMI), a company wholly-owned by the shareholders of Algonquin Power Corporation Inc. (APC). A subsidiary of APC, Algonquin Power Systems Inc. (APS), operates the hydroelectric facilities on a day to day basis. Algonquin Power Acquisition Partnership, a partnership ultimately owned by APC, provides consulting services to the Fund. Collectively, these entities are referred to as the Algonquin Power Group.

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements of the Fund have been prepared in accordance with accounting principles generally accepted in Canada, and include the consolidated accounts of its wholly-owned subsidiaries, as detailed in note 18 of these consolidated financial statements. All investments are wholly-owned, except Algonquin Power (Rattle Brook) Partnership. The Fund's 45 per cent interest in this facility is accounted for under the equity method.
All significant intercompany transactions and balances have been eliminated.

(b) Cash and cash equivalents

Cash and cash equivalents include cash deposited at banks and highly liquid investments with original maturities of 90 days or less.

(c) Funds held in reserve

Cash reserves segregated from the Fund's cash balances are maintained in accounts administrated by a separate agent and disclosed separately in these consolidated financial statements because the Fund cannot access this cash without the prior authorization of parties not related to the Fund.

(d) Capital assets

Capital assets, being land, hydroelectric generating facilities, hydro contract acquisition costs and licences and agreements are recorded at cost. Development costs, including the cost of acquiring or constructing facilities together with the related interest costs during the period of construction are capitalized. Improvements that increase or prolong the service life or capacity of an asset are capitalized. Maintenance and repair costs are expensed as incurred.

The hydroelectric generating facilities are amortized on a straight-line basis over the estimated useful lives of the facilities. These periods range from 25 to 40 years.

Notes to the Consolidated Financial Statements

The costs attributable to establishing exemptions from Federal Energy Regulatory Commission licensing requirements in the United States are being amortized on a straight-line basis over five years.

Agreements acquired by the Fund are amortized over the expected term to maturity.

Hydro contract acquisition costs are being amortized on a 20% declining balance basis.

(e) Notes receivable

Notes receivable are carried at the lower of cost or estimated realizable value. Estimated realizable value is the expected future cash flows discounted at the rate of interest inherent in the investment on acquisition.

(f) Deferred financing fee

The costs of arranging a credit facility have been deferred and are being amortized over the term of the credit facility. The amortization has been included with interest expense on the consolidated statement of earnings and deficit.

(g) Recognition of revenue

Revenue is derived from energy sales and is recorded at the time electrical energy is delivered.

Interest income from notes held and income from participation agreements and other interests is recorded as earned.

(h) Foreign currency translation

The Fund's United States subsidiaries and partnership interests are considered to be functionally integrated with the Canadian operations. All monetary assets and liabilities denominated in United States dollars are translated into Canadian dollars at year end exchange rates, whereas non-monetary assets and liabilities are translated at the rate in effect at the transaction date. The revenues and expenses of these integrated operations are translated at the average rate of exchange in effect during the period. The foreign currency translation adjustment is reflected in the consolidated statement of earnings and deficit.

(i) Income taxes

As the Fund is an unincorporated trust, it is entitled to deduct distributions to unitholders to the extent of its taxable income and consequently, it is expected that the Fund will not be liable for any material tax as this will be the responsibility of the individual unitholder. Any provision for income taxes will relate solely to the income taxes of the Fund's wholly owned subsidiaries.

Notes to the Consolidated Financial Statements

Income taxes are accounted for using the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

(j) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of these financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from estimates. During the years presented, management has made a number of estimates and valuation assumptions, including the useful lives of capital assets, the recoverability of future tax assets and the fair value of financial assets and liabilities. These estimates and valuation assumptions are based on present conditions and management's planned course of action, as well as assumptions about future business and economic conditions. Should the underlying valuation assumptions and estimates change, the recorded amounts could change by a material amount.

(k) Comparative Figures

Certain comparative figures have been reclassified to conform to the current year presentation.

2. TRUST UNITS

Authorized trust units

The Declaration of Trust provides that an unlimited number of units may be issued. Each unit represents an undivided beneficial interest in any distribution from the Fund and in the net assets in the event of termination or wind-up. All units are the same class with equal rights and privileges.

Trust units are redeemable at the holder’s option at amounts related to market prices at the time subject to a maximum of $250 in cash redemptions in any particular calendar month. Redemptions in excess of this amount shall be paid by way of a distribution in specie of a pro rata amount of certain of the Fund’s assets, including the securities purchased by the Fund, but not to include the generating facilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Issued trust units	Number of units	Amount
Balance as at December 31, 1998	14,090,472	$ 132,461
April 27, 1999 issue	8,100,000	83,835
November 25, 1999 issue	1,830,000	16,013
Cost of issues		(7,517)
Balance as at December 31, 1999	24,020,472	224,792
September 19, 2000 issue	3,000,000	27,450
Cost of issue		(1,721)
Balance as at December 31, 2000	27,020,472	$ 250,521

3. ACQUISITIONS

a) Acquisitions of generating facilities

During 2000, the Fund acquired a 100% interest in three hydroelectric generating facilities from the Algonquin Power Group for total consideration of $12,978. The acquisitions have been accounted for using the purchase method with earnings from operations included since the date of acquisition. The consideration paid by the Fund has been allocated to net assets acquired as follows:

Working capital	$ 165
Capital assets	12,813
Total purchase price	12,978
Less: cash acquired	(164)
Cash paid, net of cash acquired	$ 12,814

The purchase price paid for each facility, the nature of the acquisitions and the dates of acquisition are set out in the table (opposite).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Facility	Purchase Price	Nature of Acquisition	Date of Acquisition
Milton Mills	$ 2,618	shares and management agreement acquired	July 11, 2000
Mine Falls	4,905	partnership acquired	September 6, 2000
Great Falls	5,455	partnership acquired	September 15, 2000
Total	$ 12,978		

During 1999, the Fund acquired a 100% interest in eight hydroelectric generating facilities from the Algonquin Power Group for total consideration of $85,632, which includes $85,132 applied to the assets acquired and $500 expensed for consulting services. The acquisitions have been accounted for using the purchase method with earnings from operations included since the date of acquisition. The consideration paid by the Fund has been allocated to net assets acquired as follows:

Working capital	$ 1,872
Capital assets	126,833
Future income tax asset - current	546
Long-term liabilities	(22,778)
Future income tax liability	(21,341)
Total purchase price	85,132
Less: cash acquired	(1,923)
Less: Long-term liabilities issued to vendor	(196)
Cash paid, net of cash acquired	$ 83,013

The purchase price paid for each facility, the nature of the acquisitions and the dates of acquisition are set out in the table following.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Facility	Purchase Price	Nature of Acquisition	Date of Acquisition
Hydro Snemo	$8,026	shares acquired	June 19, 1999
Hydraska	5,742	shares acquired	June 30, 1999
Côte Ste.-Catherine	22,541	shares acquired	August 3, 1999
Mont Laurier	8,031	partnership acquired	August 3, 1999
Clement Dam	8,570	partnership acquired	August 5, 1999
St-Raphael	11,360	shares acquired	August 19,1999
Pembroke	12,509	partnership acquired	December 6, 1999
Gregg Falls	8,353	partnership acquired	December 6, 1999
Total	$85,132		

b) Acquisition of note receivable

On June 28, 1999 the Fund acquired from the Algonquin Power Group, the Franklin Note having an outstanding principal balance of $8,499, for $7,335. The details of this Note are outlined in note 5.

4. ACCOUNTING FOR NOTES RECEIVABLE, PARTICIPATION AND OTHER INTERESTS

In 1997 and 1998, the Fund acquired notes receivable and participation and other interests in the Long Sault Rapids, Trafalgar, Chute Ford, Rawdon and St. Alban facilities which entitled the Fund to 100% of the cash flows of these facilities. These were accounted for as notes receivable and participation and other interests since management determined that all the benefits and risks of ownership had not passed fully to the Fund, primarily as a result of the uncertainty regarding the ultimate ownership of these facilities. During 1999, management concluded that effective ownership of these facilities has passed to the Fund and, as such, has consolidated these facilities. The Rawdon and St. Alban facilities have been consolidated since July 1, 1999 and the remaining facilities as of December 31, 1999. The differential in value between the underlying assets consolidated and the notes receivable and participation and other interest has been capitalized to generating facilities. The table (opposite) summarizes the impact of consolidating these facilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Cash	$ 2,507
Working capital other than cash	(2,279)
Funds held in reserve	1,914
Capital assets	101,498
Long-term debt	(50,927)
Assets consolidated	$ 52,713

Notes receivable	$ 50,331
Participation and other interests	2,382
Assets eliminated	$ 52,713

5. NOTES RECEIVABLE

	2000	1999
APC Note 9.25% secured note due January 1, 2005 note to be paid in scheduled principal repayments over its term.	$ 6,402	$ 6,402
Franklin Note 11.05% senior secured note due January 1, 2006 principal amount of US$6,200. The Franklin Note is secured by a first charge against all assets of Franklin Industrial Complex, including the generating facility and key operating contracts.	7,533	7,279
	13,935	13,681
Less: current portion	1,840	–
	$ 12,095	$ 13,681

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. EQUITY INVESTMENT

	2000	1999
100% of the outstanding shares of 3033083 Nova Scotia Limited, which owns a 45% partnership interest in the Algonquin Power (Rattle Brook) Partnership	$ 4,100	$ 4,162

7. CAPITAL ASSETS

	2000 Cost	2000 Accumulated amortization	2000 Net book value	1999 Net book value
Land	$ 261	$ –	$ 261	$ 252
Generating facilities	302,615	13,228	289,387	285,785
Hydro contract acquisition costs	1,442	750	692	923
Licenses and agreements	1,879	198	1,681	281
	$ 306,197	$ 14,176	$ 292,021	$ 287,241

Generating facilities include $92,823 (*1999—$93,998*) of assets under capital lease.

Notes to the Consolidated Financial Statements

8. REVOLVING CREDIT FACILITY

The Fund has negotiated a $50 million revolving credit facility with a major Canadian bank, which will mature September 30, 2002. Under the terms of the revolving credit facility, the Fund may acquire hydroelectric assets that meet the Fund's acquisition guidelines. At December 31, 2000, the Fund has not drawn any funds (*1999—$6,911*) on the facility. The terms of the credit agreement require the Fund to pay a standby charge of 0.35% on the unused portion of the revolving credit facility and maintain certain financial covenants. The facility is secured by a fixed and floating charge over all Fund entities.

9. LONG-TERM LIABILITIES

	2000	1999
Notes payable to APC, unsecured		
10% per annum, to mature March 31, 2001, with scheduled quarterly principal payments.	$ -	$ 1,646
9% per annum, to mature March 31, 2001, with scheduled quarterly principal payments.	-	1,178
	-	2,824
The unsecured notes payable to APC have been fully repaid at December 31, 2000.		
Amounts due to Hydro Québec, unsecured, non-interest bearing to be repaid by annual principal payments until 2003.	254	483
Senior Debt Côte Ste.-Catherine		
Loans bearing interest varying from 9.91% to 11.05% repayable in monthly blended installments of $235, maturing February 2018. The loans are secured by the Côte Ste.-Catherine hydroelectric generating facility and a $4.0 million guarantee from the Mont Laurier hydroelectric generating facility, with no other recourse to the Fund. The loans have certain financial covenants, which must be maintained on a quarterly basis.	22,189	22,645

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Senior Debt Long Sault Rapids		
Loans bearing interest varying from 10.16% to 10.21% repayable in monthly blended installments of $401, maturing December 2028. The loans are secured by a first fixed and floating charge over all the assets of the Long Sault Rapids hydroelectric generating facility, with no recourse to the Fund. The loans have certain financial covenants, which must be maintained on a quarterly basis.	44,692	44,958
Senior Debt Chute Ford		
Loan bearing interest of 11.55% repayable in monthly blended installments of $64, maturing April 2020. The loan is secured by a general assignment of book debts of the Chute Ford hydroelectric generating facility, with no recourse to the Fund. The loan has certain financial covenants, which must be maintained on a quarterly basis.	5,892	5,968
Unsecured note		
$275 due March 2004, discounted at 7%.	217	196
	73,244	77,074
Less: current portion	(994)	(3,194)
	$ 72,250	$ 73,880

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Principal payments due in the next five years are:

2001	$ 994
2002	1,016
2003	1,107
2004	1,448
2005	1,304
Thereafter	67,433
	$ 73,302
Less: Imputed interest	(58)
	$ 73,244

10. FINANCIAL INSTRUMENTS

The carrying amount of the Fund's cash and cash equivalents, accounts receivable, funds held in reserve, accounts payable, accrued liabilities, due to Algonquin Power Group and cash distribution payable, approximate fair market value due to the short term nature of these financial instruments.

The carrying amount of the Fund's notes receivable and long term debt approximate fair value. Fair value was estimated by the Fund by comparing the rates currently available for notes receivable and long term debt of similar terms and risks.

On a quarterly basis, the Fund prepares an estimate of cash flows which are expected to be generated by its US hydroelectric facilities and enters into hedge agreements in respect of a portion of these cash flows, using currency option instruments with a major financial institution. At year-end the Fund had an outstanding hedge agreement in place for $US 1,800 which will expire during the first quarter of 2001. This agreement provides the Fund with the right to acquire one US dollar for $1.4800 Canadian and obligates the Fund to sell one US dollar for 1.5025 Canadian if exchange rates increase above such amount. The exchange rate at December 29, 2000 was $1.4995 Canadian for $ 1 US. Accordingly, there were no gains or losses created by this hedge agreement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. INCOME TAXES

The provision for income taxes in the consolidated statements of earnings represents an effective tax rate different than the Canadian statutory rate of 40.0% (*1999—40.0%*). The differences are as follows:

	2000	1999
Earnings before income tax	$ 14,990	$ 7,222
Computed income tax expense at Canadian statutory rate	5,996	2,889
Increase (decrease) resulting from:		
Income of trust distributed directly to unitholders	(3,204)	(2,922)
Change in substantively enacted tax rate	(2,161)	–
Manufacturing and processing deduction	(86)	(9)
Large corporations tax	127	38
Other	954	17
Income tax expense	$ 1,626	$ 13

The tax effect of temporary differences at the Fund's subsidiaries that give rise to significant portions of the future tax assets and future tax liabilities at December 31, 2000 and 1999 are presented below:

	2000	1999
Future tax assets:		
Non-capital loss, debt restructuring charges and non-deductible interest carryforwards	$ 851	$ 960
Other	–	193
Less: valuation allowance	–	(62)
Total future tax assets	851	1,091
Future tax liabilities:		
Capital assets –differences between net book value and undepreciated capital cost	(22,010)	(21,664)
Other	(320)	–
Total future tax liabilities	(22,330)	(21,664)
Net future tax liability	$ (21,479)	$ (20,573)

Notes to the Consolidated Financial Statements

Classified in the financial statements as:		
Future current income tax asset	$ 217	$ 546
Future non-current income tax asset	–	719
Future current income tax liability	(1,806)	–
Future non-current income tax liability	(19,890)	(21,838)
	$ (21,479)	$ (20,573)

At December 31, 2000, the Fund itself has financing expenses and underwriters' fees of $10,589 (***1999—$13,886***) which will be deductible by the Fund and which will reduce the ultimate amount taxable to the unitholders over the next four years. This will be offset by additions to the unitholders' taxable income since the Fund's capital assets have an accounting basis which exceeds their tax basis by $2,455 (***1999—$1,415***).

12. COMMITMENTS

Management Agreement

The Fund has entered into a management agreement with AMI. The management services to be provided include advice and consultation concerning business planning, support, guidance and policy making and general management services. The management agreement is for an initial ten year term to expire December 31, 2007, with the term to be renewed for successive five year periods.

AMI is to receive the following fees in addition to reimbursement of reasonable out-of-pocket expenses:

(1) a quarterly fee of US$36 adjusted annually for changes to the Canadian Consumer Price Index;

(2) a fee based on the total energy production from all facilities in which the Fund has an interest; and

(3) an incentive fee equal to the aggregate of 10% of the distributable cash per trust unit in excess of $0.97 (*1999—$0.95*) per trust unit and up to $1.045 (*1999—$1.025*) per trust unit and 25% of the distributable cash per trust unit in excess of $1.045 (*1999—$1.025*) per trust unit.

During 2000, management fees of $408 (*1999—$408*) were incurred.

Notes to the Consolidated Financial Statements

Operations Supervisory Agreement

The Fund has entered into an operations supervisory agreement with APS. The operations supervisory services to be provided include the planning of capital repairs, compliance monitoring for environmental permits and administration of power purchase agreements. The operations supervisory agreement is for an initial term of ten years to expire on December 31, 2007 with the term to be renewed for successive five year periods.

APS is to receive a fee of US$54 adjusted annually for the changes to the Canadian Consumer Price Index. During 2000, operations supervisory fees of $308 (1999 - $308) were incurred.

Direct Operations Contract

Each of the operating entities has entered into a direct operations contract with APS. The direct operations contracts provide for the day to day services required to operate and maintain the hydroelectric facility. Payments under these contracts typically have a fixed fee and variable component. The variable fee is either linked to gross revenue or gross revenue less direct operating costs. The Fund incurred $4,459 during 2000 (*1999—$1,969*) in direct operating contract expenses for the consolidated facilities. For the facilities that generate interest income and income from participation agreements, there were direct operating contract expenses of $251 in 2000 (*1999—$1,983*). In addition to normal operating fees, the Fund paid APS for capital improvements and repair and maintenance for the consolidated facilities a total of $2,475 (*1999 —$885*). For the facilities that generate interest income and income from participation agreements, APS charged $130 (*1999—$576*) for repairs and maintenance.

Land and Water Leases

Each of the operating entities has entered into agreements to lease either the land and/or the water rights for the hydroelectric facility or to pay in lieu of property tax an amount based on electricity production. These payments typically have a fixed and variable component. The variable fee is generally linked to actual power production or gross revenue. The Fund incurred $2,571 during 2000 (*1999—$716*) in respect of these agreements for the consolidated facilities. For the facilities that generate interest income and income from participation agreements, there were land and water lease payments of $27 in 2000 (*1999—$136*).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. CASH DISTRIBUTIONS

Distributable income, as defined in the Declaration of Trust, is distributed to unitholders of record on the last day of each calendar quarter on or before the 45th day of the following calendar quarter.

Distributions per unit declared by the Trustees in 2000 and 1999 were as follows:

	2000	1999
First quarter	$ 0.2425	$ 0.2400
Second quarter	$ 0.2425	$ 0.2000
Third quarter	$ 0.2425	$ 0.2200
Fourth quarter	$ 0.2425	$ 0.2400

14. NET EARNINGS PER TRUST UNIT

Net earnings per trust unit have been calculated using the weighted average number of units outstanding during the year. The weighted average number of units outstanding for 2000 was 24,867,047 (*1999—19,584,088*).

15. SEGMENTED INFORMATION

	2000	1999
Revenues		
Canada	$ 24,125	$ 12,603
United States	22,368	6,758
	$ 46,493	$ 19,361
Capital Assets		
Canada	$ 224,784	$ 229,084
United States	67,237	58,157
	$ 292,021	$ 287,241

Notes to the Consolidated Financial Statements

Revenues are attributable to the two countries based on the location of the underlying generating facilities.

All revenues, either directly through energy sales or indirectly through income and participation agreements, are earned from contracts with large public utilities. The following utilities contributed more than 10% of these total revenues: Niagara Mohawk Power Corporation–25% (1999-27%), Ontario Electricity Financial Corporation 16% (1999 – 24%), Public Service of New Hampshire–24%(1999-14%), and Hydro Québec–33%(1999-34%). The Fund has mitigated its credit risk to the extent possible by selling energy to these large utilities in various North American locations.

16. CONTINGENCIES

The Fund and its subsidiaries are involved in various claims and litigation arising out of the ordinary course and conduct of its business. Although such matters cannot be predicted with certainty, management does not consider the Fund's exposure to such litigation to be material to these financial statements.

17. SUBSEQUENT EVENT

Subsequent to year-end, the Fund issued 7,590,000 trust units at a price of $9.85 per trust unit for gross proceeds of $74,762, with net proceeds of $71,023 after deducting expenses of the offering including the underwriter's fee of $3,739.

Notes to the Consolidated Financial Statements

18. SUBSIDIARIES, PARTNERSHIP INTERESTS AND TRUST

The consolidated financial statements include the accounts of the following entities, except as noted:

Canadian Subsidiaries, Partnership Interests and Trust

Algonquin Power Fund (Canada) Inc.
Algonquin Power Trust
Société Hydro Donnacona S.E.N.C. Partnership
Donnacona Holdings Inc.
3033083 Nova Scotia Limited *
Algonquin Power (Rattle Brook) Partnership (45% interest)
Algonquin Developments (Côte Ste.-Catherine) Inc.
Algonquin Energy (Côte Ste.-Catherine) Inc.
Algonquin Power Mont Laurier GP Inc.
Algonquin Power (Mont-Laurier) Limited Partnership
Hydro Snemo Inc.
Hydraska (St Hyacinthe) Inc. **
Société d'Énergie St Raphael Inc.
3038343 Nova Scotia Limited

* Previously 10640 Newfoundland Limited and continued as 3033083 Nova Scotia Limited.
** Wound up into Algonquin Power Fund (Canada) Inc. on July 1, 2000.

U.S. Subsidiaries and Partnership Interests

Algonquin Power Fund (America) Inc.
Algonquin Power Fund (America) Holdco Inc.
Lakeport Hydroelectric Corporation
Avery Hydroelectric Associates Partnership
Burt Dam Power Company Partnership
Clement Dam Hydroelectric LLC
Great Falls Hydroelectric Company
Gregg Falls Hydroelectric Partnership
Hadley Falls Associates Partnership
HDI I Associates Partnership
HDI III Associates Partnership
Hollow Dam Power Company Partnership
Mine Falls Limited Partnership
Moretown Hydro Energy Company Partnership
Pembroke Hydro Partnership
SFR Hydro Corporation

GENERAL INFORMATION

HEAD OFFICE

2085 Hurontario Street,
Suite 210
Mississauga, Ontario
L5A 4G1

Telephone: 905-273-8900
Fax: 905-273-8914

Web Site: www.algonquinpower.com
E-mail: apif@algonquinpower.com

REGISTRAR AND TRANSFER AGENT

CIBC Mellon Trust Company
320 Bay Street
P.O. Box 1
Toronto, Ontario
M5H 4A6

ANNUAL GENERAL MEETING

Thursday, May 24, 2001
4:00 pm
Ottawa/Humber/Fraser Room
Blake, Cassels & Graydon LLP
23rd Floor
199 Bay Street
Toronto, Ontario

STOCK EXCHANGE

The Toronto Stock Exchange
SYMBOL: APF.UN

AUDITORS

KPMG LLP
Toronto, Ontario

LEGAL COUNSEL

Blake, Cassels & Graydon LLP
Toronto, Ontario

THE
DEVELOPMENTS

www.algonquinpower.com